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Ministry of Revenue

Miscellaneous publications

# INTERPROVINCIAL SALES TAX ARRANGEMENT FOR CANADIAN TRANSPORTATION COMPANIES

**PUBLISHED BY:**

PROVINCES OF:

NEWFOUNDLAND
PRINCE EDWARD ISLAND
NOVA SCOTIA
NEW BRUNSWICK
QUEBEC
ONTARIO
MANITOBA
SASKATCHEWAN

**ARRANGEMENT ORIGINALLY INTRODUCED APRIL 1, 1969**
**AMENDED AS OF JULY 1, 1977**

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## 1. PARTICIPATING PROVINCES

The following provinces are participants in the Interprovincial Sales Tax Arrangement and for purposes of the Arrangement their participation is governed by the statutes indicated:

| | |
|---|---|
| NEWFOUNDLAND — | The Retail Sales Tax Act |
| PRINCE EDWARD ISLAND — | The Revenue Tax Act |
| NOVA SCOTIA — | Hospital Tax Act |
| NEW BRUNSWICK — | Social Services and Education Tax Act |
| QUEBEC — | The Retail Sales Tax Act |
| ONTARIO — | The Retail Sales Tax Act |
| MANITOBA — | The Retail Sales Tax Act |
| SASKATCHEWAN — | The Education and Health Tax Act |

Queries concerning the arrangement should be addressed by registrants located in the following provinces to the addresses shown:

| | |
|---|---|
| NEWFOUNDLAND . . . . . . . . . . . . . . . . . . . . . . . | Department of Finance<br>Taxation Division<br>Confederation Building<br>St. John's, Newfoundland<br>A1C 5T7 |
| PRINCE EDWARD ISLAND . . . . . . . . . . . . . . . . | Department of Finance<br>P.O. Box 1330<br>Charlottetown<br>Prince Edward Island |
| NOVA SCOTIA. . . . . . . . . . . . . . . . . . . . . . . . . . . | Provincial Tax Commission<br>Health Services Tax Division<br>P.O. Box 755<br>Halifax, Nova Scotia |
| NEW BRUNSWICK . . . . . . . . . . . . . . . . . . . . . . | Tax Administration Branch<br>P.O. Box 3000<br>Fredericton, New Brunswick |

| | |
|---|---|
| QUEBEC | 3 Complexe Desjardins<br>P.O. Box 3000<br>Montreal, Quebec<br>H5B 1A4<br><br>20 Chauveau Avenue<br>Quebec City, P.Q. |
| ONTARIO | Retail Sales Tax Branch<br>Parliament Buildings<br>Queen's Park<br>Toronto, Ontario<br>M7A 1X9 |
| MANITOBA | Retail Sales Tax Branch<br>115 Norquay Building<br>Winnipeg, Manitoba<br>R3C 0P8 |
| SASKATCHEWAN | Saskatchewan Revenue<br>Supply and Services<br>Education and Health Tax Branch<br>3475 Albert Street<br>Regina, Saskatchewan<br>S4S 6X6 |
| ALBERTA | Saskatchewan Revenue<br>Supply and Services<br>Education and Health Tax Branch<br>3475 Albert Street<br>Regina, Saskatchewan<br>S4S 6X6 |
| BRITISH COLUMBIA | Retail Sales Tax Branch<br>115 Norquay Building<br>Winnipeg, Manitoba<br>R3C 0P8 |

**2. OBJECTIVES**

The purpose of this interprovincial arrangement is to relieve common carriers as nearly as possible from the application of sales taxes more than once where vehicles are operated under authorities in more than one province. Because tax must be paid to each province levying tax in which the carrier operates, a system has been devised whereby tax can be paid on a pro rata basis to the provinces, calculated on mileage formula.

By following the details of the arrangement, eligible carriers can substantially lessen the impact, or possible impact, of sales taxes across the provinces with a minimum investment of time and effort.

## 3. PRINCIPLE

To achieve the objective of minimizing multiple taxation, the arrangement outlines the basic procedures which are to be followed to gain this end. The carrier is permitted to make purchases of vehicles and parts (except for emergency repairs paid for by the driver) exempt of tax and to make a distribution of tax direct to the appropriate provincial governments. This method can be applied only to certain categories of vehicles, that is, highway powered vehicles, highway trailers, piggyback trailers, buses, as well as containers. It does not apply to city vehicles, private cars, or other equipment. Vehicles purchased by broker drivers are included, but are treated in a special manner which is discussed at some length elsewhere in the booklet. The arrangement only applies to certain vehicles and parts. Tax must be paid at time of purchase of office equipment, supplies, etc.

To take advantage of the benefits of the arrangement, the carrier must comply with certain basic requirements, summarized as follows:

..He must register with each participating province in which his vehicles or those of his brokers run and make regular returns and remittances of tax to those provinces, as required.

..He must sign an agreement with any participating province where he operates which requires it.

..He must accept responsibility for tax relating both to his own vehicles and those of broker drivers operating on his behalf.

..He must maintain records as required in this booklet or an acceptable equivalent. Details to substantiate the calculations of tax, mileage formulae, returns and payments of tax and other relevant items must be available.

The audit staff of the carrier's "home province" is authorized to carry out audits on behalf of all provinces and the individual provinces will raise assessments based on these audits. In the event of an objection to a specific assessment by the carrier, the carrier may be required to submit additional details directly to the province involved or make his records available to auditors of that province as required.

## 4. TAX RATE IN THE PARTICIPATING PROVINCES
(in effect September 1, 1979)

| | |
|---|---|
| Newfoundland | 11% |
| Prince Edward Island | 8% |
| Nova Scotia | 8% |
| New Brunswick | 8% |
| Quebec | 8% |
| Ontario | 7% |
| Manitoba | 5% |
| Saskatchewan | 5% |

## 5. DEFINITIONS

For the purposes of this arrangement, the following terms are defined:

(1) **Allowable U.S. Miles**
U.S. miles are allowed on a restricted basis. If sales tax is paid to any American state, miles in that state by the vehicle or vehicles on which such tax was paid may be included in "Total Category Miles". The payment of various levies other than sales or use taxes is not considered the payment of tax for purposes of this arrangement as outlined in this paragraph.

*Comment:* Some U.S. states do not levy taxes on vehicles used in interstate commerce. Consequently, if a vehicle is purchased by a carrier who is registered under this Arrangement and is subject to the sale or use tax of the state of purchase, the miles run in that state by that vehicle qualify as "Allowable U.S. miles."

*Comment:* Payment of taxes other than state sales or use taxes does not meet the above requirements. Examples of these taxes are, without limiting the generality of this definition:

- Federal Highway Use Tax
- Ton/Mile Tax
- Road Tax
- Toll Fees

(2) **Auditing Province** — The home province is the auditing province and will be responsible for audits on behalf of all participating provinces.

(3) **Broker Driver** — A person who contracts with a carrier to provide power unit and driver for haulage of carrier trailers or who provides power unit, driver and trailer or trailers and in all cases under the direct control and vehicle registry of the carrier and with proper authorization of the province or provinces where required. The broker may either own or rent such equipment.

(4) **Broker Repairs** — All repairs to broker owned units at the broker's expense.

(5) **Carrier** — A Canadian transportation company registered under the arrangement including any of the following when regularly rendering **interprovincial** service:

(a) Canadian trucking companies operating under extra-provincial authority granted under the Motor Vehicle Transport Act (Canada).

(b) Canadian furniture movers.

(c) Canadian bus companies providing scheduled runs.

*Note* — Private carriers and interprovincial contractors are not eligible.

(6) **Carrier Repairs — Distributable** — Any repair other than those listed at (7) carried out on carrier vehicles, including "on the road" charge repairs and including labour if performed in Newfoundland, Prince Edward Island or Manitoba.

(7) **Carrier Repairs — Undistributed**

**(a)** *Emergency* — any repair paid for by the driver at time of purchase, including

sales tax — this is to say emergency on-the-road repairs, including labour if performed in Newfoundland, Prince Edward Island or Manitoba.

(b) *City Vehicles* — any repair carried out on a city vehicle, no matter where the work is done.

(8) **City Vehicle** — A vehicle customarily used in local pick up and delivery, for service work or otherwise than for highway use including but not limited to:

tractors
trailers
vans
automobiles
pick-up trucks
trucks
bogies

*Comment:* Local pick-up and delivery occurs in the municipality where the carrier's depot is located. Vehicles used outside this municipality for pick-up and delivery are highway vehicles.

(9) **Demurrage** — A charge made as a penalty covering the holding of a trailer, for example, an unreasonably long time in loading or unloading — not a rental. (Also see "Interchange").

(10) **Designated Home Province** — Manitoba for British Columbia-based carriers, and Saskatchewan for Alberta-based carriers.

(11) **Detention** — A charge made as a penalty covering the holding of a driver, power unit and trailer for a greater time than necessary for loading or unloading — not a rental. (Also see "Interchange").

(12) **Fair Value** — Fair value as used herein means:

— The original cost to the purchaser of the equipment (less trade-in if allowed in province of purchase) less 20% of such cost for each full year of use, or a minimum valuation of 20%, whichever is the greater.

No such minimum is placed on the retention of tax by the province of purchase where a vehicle is used there exclusively prior to the operator joining the plan. That Province retains 100% of the tax previously paid in such a situation.

For example:

— Vehicle used 2 years before joining — province retains full tax on 2/5 value — balanced distributed.

— Vehicle used 5 years before joining — province retains full tax on 5/5 value — that is, 100% of tax — distribution made to other provinces on 20% (1/5 of original value.)

(13) **Highway Powered Vehicle** — A self-propelled vehicle used by a carrier and commonly referred to as a "tractor" but also includes any other powered vehicle consistently used by a carrier for highway carriage; and highway buses.

(14) **Home Province** — The participating province in which a carrier's head office is

situated or in which the accounting records are located if not maintained at head office.

(15) **Interchange** — The use of a vehicle owned by one carrier by another for which a charge is made — considered to be a rental. (Also see "Demurrage" and "Detention"). See section 20(4), page 21 regarding Ontario treatment of this item.

(16) **International Vehicle** — A vehicle used in Canada and the United States.

(17) **Interprovincial Vehicle** — A vehicle used in more than one province.

(18) **Intraprovincial Vehicle** — A vehicle used exclusively within one province.

(19) **Mileage Distribution Year** — The calendar year ending December 31 or the carriers' fiscal year whichever he may choose, subject to the permission of his home province.

(20) **Parts** — Vehicle categories referred to include both vehicle and parts for such vehicles. For example:

"Trailers" include trailer tarps, tires, tie-downs, grease, and equipment used on trailers.

"Power units" include tires, antifreeze, oil, grease, mirrors and other accessories but **not** maintenance tools.

(21) **Prorates** — A pro rata division of the total revenue received for moving a shipment where more than one carrier is involved.

(22) **Taxed Service** — Repairs to and any work whatever done on or in connection with any tangible personal property (applicable to repairs done in Newfoundland).

(23) **Time of Payment** — All tax payable under this arrangement must be remitted as required to each province involved on the return next following the date of purchase of a vehicle or parts by a carrier or of a vehicle by a broker or as necessary upon a broker joining a different carrier.

(24) **Trade-In Allowance** — Where a vehicle is purchased and another is tendered in trade, value for tax is the "net trading difference" with one exception. The value for tax in Saskatchewan is the price **before** trade-in and it is to this amount the formula must be applied when calculating tax due Saskatchewan.

*Comment:* Used vehicles on which tax has previously been paid in full to Saskatchewan prior to registering in the Arrangement are not subject to tax, when purchased for further use in that province.

*Comment:* Manitoba allows a refund of the tax on a vehicle sold at a private sale, as if it had been used as a trade-in on the purchase of another unit. The private sale must take place within six months of the purchase of the new unit. The refund will not exceed 5% of selling price of the vehicle sold.

*Comment:* There is no provision for a trade-in allowance under the New Brunswick legislation on a vehicle or trailer purchased outside that province. The

tax payable must be calculated based on the full purchase price with no allowance for a trade-in.

(25) **Trailers**

(a) *Highway Trailer* — A trailer used by an interprovincial carrier in highway haulage.

(b) *Piggyback Units* — Primarily used by a carrier in piggyback operations and includes trailers, ''rail-tainers'', ''cargo-tainers'', returnable re-usable ''boxes'' and all containers of a similar class or kind, however used.

(c) *Universal Units* — Where trailers are used interchangeably between road and rail service, they may be considered to fall exclusively within either category and the aggregate miles used accordingly for formula purposes.

(26) **Transportation Company** — Includes carriers as defined whether proprietorships, partnerships or corporations.

## 6. CARRIER REGISTRATION

(1) **Registration**

Every carrier based within or outside the province having motor vehicles and/or trailers operating into and out of or through the province, and desiring to take advantage of the provisions of this arrangement; must register for the purposes of this arrangement by obtaining a special permit from the appropriate sales tax authority in **each** province in which he runs. As a permit holder, he may make exempt purchases as detailed in this booklet and is required to file returns with the appropriate provincial sales tax authorities, remitting tax on purchases as required, to each province in which he operates.

The initial application for registration by a carrier must be made to the participating province in which their head office is located (see Note below). The province may:

..accept an application for registration in that province.

..upon registering the carrier, the home province will advise other participating provinces as necessary of the carrier's registration. The other provinces will then forward application forms to the carrier — he need not approach them direct.

..decline the application for registration in that province, notifying the other provinces accordingly and giving the reasons.

..provide information and details to the carrier, i.e. rulings, instruction bulletins, etc.

..direct the carrier to the appropriate authorities for registration in other provinces as required.

..provide any other information, instruction or assistance as may be required.

To gain relief under the arrangement a carrier must register with each participating province in which he operates. Failure to do so will disqualify him and all his registrations will be cancelled. He will then be required to pay tax in full to each province on each vehicle he uses there whether or not he has already paid tax in full to some other province or state.

*Note:* Where a carrier is located in a province which is not a participating province,

the carrier should direct inquiries to the nearest participating province as listed at the front of the booklet.

These provinces will supply the carrier with the details required and designate a home province depending on the participation by various provinces. The provinces, however, reserve the right to decline such applications where an excessive amount of work by participating provinces on behalf of carriers in non-participating provinces, would result.

(2) **Effective Date**

The details of the arrangement will be applied to all purchases made on or after the carrier's date of registration in the home province (or designated home province). This date will be common to registration in all provinces in which the carrier operates.

(3) **Additional Authorities**

Where a carrier obtains additional authorities at a later date to operate in one or more other provinces in which he did not operate at time of original registration, he must advise his home province. The home province will advise the additional provinces which will, in turn, register the carrier. The effective date of registration in the new provinces will be the date the authorities were granted in each, respectively. (Note the requirements of tax payment to these provinces on vehicles owned at time of registration as outlined at Section 8 (10). The home province will also advise the existing provinces of the additional authorities.

(4) **Cancellation of Registration**

Where any one province cancels a registration either at the carrier's request or for any other reason while the carrier continues to operate in that province, registrations with other participating provinces will also be cancelled automatically. This means, of course, that no privileges whatsoever concerning sales tax are available to the carrier.

## 7. TAX AT TIME OF REGISTRATION

Generally, the terms of this arrangement apply only to purchases made on or after the date of registration. Tax on purchases made prior to the date of registration is governed by the statutes of the provinces in which the particular vehicles were used. However, carriers' attention is drawn to the items mentioned below.

Carriers may join the arrangement under varying circumstances and tax may apply or not apply depending on these circumstances:

(a) **Tax Previously Paid**

At times a carrier may have vehicles which he has been using in a number of provinces prior to registration. It will be his responsibility to ensure that he has met his obligation to each such province regarding previous use. Each province will arrange for audit as it requires for periods prior to registration.

(b) **Tax Not Previously Paid**

Under certain circumstances a carrier may acquire vehicles at a time which coincides with his registration under the arrangement but on which he has not paid tax. This

will frequently occur where the assets of a business are purchased and authorization obtained coincidentally. Under these circumstances tax on the purchase is owing and should be distributed on the formula basis (an estimate at this stage).

(c) **Change From Intra to Interprovincial Use**

A carrier who has been operating only in one province and who obtains authorities to operate as well in another, is required to distribute tax to the "new" province on a formula based on estimated miles in the additional province applied to all his highway and other category vehicles (except city) based on the "fair value" at time of gaining the additional authorities. **No** rebate of tax paid to the "old" province will be considered.

## 8. TAX ACCOUNTING — TRANSPORTATION COMPANIES

(1) **General**

A transportation company registered under the arrangement is permitted to purchase or rent vehicles **exempt** of tax in any province in which it is registered. It must remit tax to all provinces as appropriate on their respective returns covering the period of purchase, calculated at the current rate on a formula basis for each category of vehicles used. Separate formulas may be required for each of the following **categories:**

(i) *Highway powered vehicles* — including **all** vehicles whether used on an intra or interprovincial basis, or internationally.

(ii) *Highway trailers* — including **all** units whether used on an intra or interprovincial basis, or internationally.

(iii) *Piggyback units* — including rail-tainers, boxes, etc. whether used on an inter or intraprovincial basis, or internationally.

The distribution to each participating province is made on a basic formula calculation:

$$\text{Rate of Tax X Cost of Vehicle X } \frac{\text{Category Miles in Province}}{\text{Total Canadian Category Miles}}$$

The category miles are calculated as follows:

(2) **Category Miles in Province**

The figure here is the total of **all** the miles in a province by highway units of a particular category — whether or not any particular unit operates interprovincially or intraprovincially. For example, an interprovincial carrier may operate certain units solely within one province and license them only there. The miles of these units must be included in the formula and tax must be distributed on purchases of such units and parts for them. Note that piggyback miles include both rail and road.

*Comment:* Where a company has separate fleets of highway vehicles for operation in different areas, the total highway fleet is the combination of the two operating fleets. For tax distribution purposes the company has only one fleet for each category of highway vehicles.

Manitoba permits a carrier to report separate fleets when highway vehicles are used and licensed for different purposes.

(3) **Total Category Miles**

The total miles for all highway units in a category are to be included. As in the category miles calculation, it does not matter whether a particular unit is used interprovincially or not, the miles are included.

Some care will be required in selecting the proper formula or formulas to be used. For example, a carrier will require formulas as detailed when he runs in:

(a) *One Province Only* — No formula, he will not be registered under the arrangement and will pay tax on purchase of vehicles and parts when he purchases them.

(b) *One Province and U.S.*

If the carrier operates in only one province and the United States, he will not be registered under the arrangement. Relief, if any, may be granted at the discretion of the individual province.

(c) *More Than One Province, But Not U.S.*

If two or more of the provinces are participating provinces as listed in this booklet, the carrier may register under the arrangement. The formula for "total category miles" will then be the aggregate of all miles run in any Canadian province or territory, including British Columbia, Alberta, North-West Territories and the Yukon, if applicable, as well as miles in participating provinces. A distribution under the plan will be made only to participating provinces.

(d) *More than One Province and U.S.*

If two or more provinces are participating provinces as listed in this booklet, the carrier may register under the arrangement. The formula for "total category miles" will then be the aggregate of all miles run in all Canadian provinces and territories, including British Columbia, Alberta, North-West Territories and the Yukon, if applicable, as well as miles in the participating provinces, but will not include U.S. miles except as detailed at paragraph 5(1) under the definition of "Allowable U.S. miles".

It is emphasized that only category miles in Canadian jurisdictions and allowable U.S. miles as defined, may be included in the base for calculation of the percentage attributable to each jurisdiction.

*Comment:* Where tax has been paid to an American state on the purchase of a highway vehicle tax will be accounted for as follows:

Taxable Value Subject To Distribution to Participating Provinces

$$\text{Cost of Vehicle} \times \frac{50{,}000}{100{,}000} \times \text{Provincial Tax Rates}$$

Distance Travelled

| | | |
|---|---|---|
| State Where Tax Paid . . . . | 50,000 | 5% |
| Other States. . . . . . . . . . . . | 900,000 | 90% |
| Canadian Provinces . . . . . | 50,000 | 5% |
| | 1,000,000 | 100% |

(4) **Basis of Tax Returns**

To make a pro rata distribution of tax as required, the carrier must know the total miles travelled by vehicles in each category in each province and the total category miles for a full year. These miles in each jurisdiction are then converted to a percentage of total category miles.

The percentages remain constant for one mileage distribution year. At the end of a year, the percentages are recalculated on the basis of actual for that year and the resultant percentages are used throughout the next year. For example, 1976 percentages will be used in 1977, 1977 percentages used in 1978, 1978 percentages in 1979 and so on.

In the first year of operation a carrier must estimate his percentage distribution and distribute tax accordingly on his purchases. At the end of the company's mileage distribution year first following the commencement of operation provided the time of operation exceeds 3 months, an adjustment to actual miles will be made. If the period of operation is 3 months or less the adjustment to actual miles will be made as of the company's mileage distribution year-end next following.

Where a carrier has accurate previous year mileage data as required under the arrangement, distribution may be made on this basis in the normal manner and no adjustment will be necessary. "Year" refers to a calendar year or fiscal year as elected by the transportation company, subject to approval by the Home Province.

From that point forward the prior year's percentages will be used in the current year.

Having established the necessary percentage figures the carrier then buys category vehicles and parts exempt and remits tax at month end (or as required) to the appropriate provinces. For example —

Total purchases x tax rate x percentage of use which can be illustrated as follows:

$10,000 x 8% x 22.52% = $180.16

(5) **Calculation of Percentages**

In calculating the distribution percentage for provinces where a relatively small number of miles are run, the figure should be taken to two decimal places, for example, 0.32%. In no case will the percentage used be less than 0.05%. This means that where a carrier operates in a province and is registered there under the Arrangement, the minimum percentage he can use is 0.05% in making the calculating for that province. That is to say he must use the actual percentage or .05%, whichever is greater.

(6) **Use of Percentage Figures**

As explained above, once calculated, the distribution percentages remain constant through the mileage distribution year. Tax will thus be distributed on each return in accordance with the distribution percentage, **whether or not** miles are run in a particular province during the period covered.

(7) **Tax Distribution Form**

A summary of the tax payable for the reporting period will be recorded on "Tax Distribution Form — Canadian Transportation Companies", a copy of which will then be attached to the return made to each applicable province. (See Appendix 2)

**(8) Illustrative Cases**

Case studies illustrating many of the points referred to can be found at the back of this booklet as Appendices 3-15 inclusive.

**(9) Non-Participating Jurisdictions**

No tax will be distributable under the arrangement to Alberta, British Columbia, North-West Territories, the Yukon, or American States. Tax may be payable to some or all of these jurisdictions independently. However, mileages run in such jurisdictions can be included for formula purposes as indicated in paragraph 8(2) & (3).

**(10) Additional Authorities**

In the event a carrier registered under the arrangement obtains authorizations to operate in an additional participating province or provinces, tax will be payable to such province or provinces on the fair value of all highway vehicles operated by him calculated on the formula of estimated miles in the additional province or provinces to total category miles.

At the company's mileage distribution year-end first following commencement of the additional operation, provided the experience in the additional province or provinces exceeds three months, an adjustment to actual miles will be made. If the period of operation is 3 months or less, the adjustment will be made to actual as of the company's mileage distribution year-end next following.

Tax on purchases made after the additional authorities are received and put into operation will be distributed on a formula including estimated miles in the additional jurisdictions. Where new provinces are added, the mileage in them must be estimated and added to the total category miles for purposes of the distribution formula in each category. At the end of the carrier's mileage distribution year, a correcting adjustment on the estimated formula must be applied to bring it to actual. Subsequent years will be based on the prior year's actual, as before.

**(11) Changes In Use — Highway Vehicles**

Where tax has been distributed on a highway vehicle on purchase on the formula basis, no further distribution will be required while owned and operated by the original purchaser provided the vehicle continues to be used in any or all of the provinces to which tax was distributed. For example, change from long interprovincial runs to shorter intraprovincial or city services will not attract tax under these circumstances.

**(12) City Vehicles**

City vehicles, as defined, are excluded from all calculations and full tax will be paid to the province of use.

**(13) Change In Use Of City Vehicles**

City vehicles moved to another province will be taxed in the other province in accordance with its legislation and no adjustment made for tax previously paid to the original province.

City vehicles transferred to interprovincial highway use will be taxable in the other

provinces where the vehicles are to operate. The tax is based on the fair value at the time of transfer in accordance with Section 5(12).

*Comment:* Changes in the P.C.V. Licences granted a carrier authorizing the use of city vehicles for highway operation will not result in the city vehicles being included in the highway fleet unless they are actually used for that purpose.

## 9. TAX ACCOUNTING — BROKER DRIVERS

### (1) General

Broker drivers cannot register under the arrangement. They must pay tax as applicable on all purchases. However, under certain conditions, to avoid multiple taxation of the broker driver and to equitably allocate tax to provinces of use, the carrier will distribute and adjust as necessary, the tax paid on a vehicle by the broker driver. If for some reason tax is not paid at the time of purchase or lease (vehicle purchased in Alberta for example), the carrier will collect and distribute the tax as applicable.

*Comment:* If the broker has not paid tax on the purchase of a vehicle, or is unable to prove payment of tax, the carrier **must** collect and distribute tax based on the cost of the vehicle. It is the carrier's responsibility to ensure that his brokers have paid tax in full to their home province, before the allocation formula is applied.

In most cases, the broker will owe tax to more than one province but will, as required, have paid full tax on purchase of his vehicle. However, the carrier can make an adjustment on his returns to distribute the broker tax in the proper manner. Ordinarily, tax will have been overpaid to the province of purchase. The amount of overpayment, adjusted as necessary, must be deducted from the carrier's next return to that province. Tax can then be added as required to the returns to the provinces to which the broker owes tax with a final charge made to the broker as necessary. The procedure is outlined in detail in the following sections.

In all such cases, the carrier **must** provide the broker driver with a statement certifying the distribution in detail, retaining records to substantiate it. No certificate is required for brokers who rent or lease their vehicles.

The form of certificate is attached as Appendix 1. A copy of this certificate for each broker engaged by a carrier is to be filed with the return for the month that tax previously paid by him is distributed. Three copies of this certificate are required, with the original for the broker, one copy to the home province and one copy retained by the carrier. Where the home province is Ontario, the copy need not be submitted to that province, but retained for audit examination.

When a broker is already under contract to a carrier at the time of the latter's registration under the Arrangement, no additional tax is due on a vehicle he owns at that time.

In the same manner a broker, under contract to a carrier at the time additional authority is granted, is liable for tax to the additional jurisdictions, provided that the carrier operates on the total fleet or modified fleet basis for broker drivers.

(2) **Application**

While a carrier may operate in a number of provinces, he will frequently contract with broker drivers to undertake hauls in one or at least only some of the provinces in which he operates. For example, a carrier may operate in Alberta, Saskatchewan and Manitoba. He may contract with a broker to operate only in Alberta or Alberta and Saskatchewan but not Manitoba or in other combinations.

The carrier may operate in either one of three ways:

.. Account for tax on a **"broker fleet basis".** In this instance the mileages of all brokers will be added together for the fleet total. The portion of the total run in each province will be calculated as a per cent of total. Tax will be calculated and distributed on vehicle purchases made by **all** broker drivers on this formula, no matter where any individual may actually operate. Changes in use with the carrier will not attract further tax if within a province to which tax has been distributed. If U.S. miles are involved, the formula will include or exclude such miles in accordance with the definition of "allowable U.S. miles" at paragraph 5 (1) under Definitions.

.. Account for tax on an **"individual broker basis".** Under this system, each broker's miles will be used to calculate a separate formula and this formula will be used to distribute tax on his purchases of highway vehicles. Tax will be distributed only to the province or provinces in which he actually operates (as applicable). For example, a carrier operating in Alberta, Saskatchewan, Manitoba and Ontario may contract with a broker to operate only in Alberta and Saskatchewan. Operating on the "individual broker" basis "total category miles" for this particular broker will be the total of his miles in Alberta and Saskatchewan. No tax is presently payable to Alberta and the formula for Saskatchewan will be Saskatchewan miles over total category miles (Alberta miles plus Saskatchewan miles). If U.S. miles are involved, the formula will include or exclude such miles in accordance with the definition of "allowable U.S. miles" at paragraph 5(1) under Definitions.

.. Account for tax on a **"modified fleet basis".** This approach is a combination of the first two. Under it a carrier may group a number of his brokers on a fleet basis while handling others on an individual basis. For example, if a carrier has a number of brokers working in, say, three provinces, he could group them. At the same time he might have other brokers with whom he has contracted to operate only in one province. He may segregate the latter and treat the two groups separately. If U.S. miles are involved, the formula will include or exclude such miles in accordance with the definition of "allowable U.S. miles" at paragraph 5(1) under Definitions.

Tax is to be reported by carriers on the returns for the month in which a broker joins a carrier, or in which a broker purchases a new vehicle.

Should a broker undertake haulage in another participating province but with the same carrier after the distribution has been made, but to which no tax has been paid, tax must be calculated, collected from the broker and distributed to the additional province by the carrier. It must be calculated on the estimated miles to be run in the additional province by the broker in proportion to his estimated total miles, on the fair value (as defined) of his vehicle at time of change. No adjustment for tax previously paid can be made because the tax previously paid was properly due to the appropriate province or provinces for the pattern of use at that time.

(3) **Calculation**

(a) *First contract* with interprovincial carrier:

(i) *before use* in any other way:

carrier will distribute whole of tax prorating it between applicable provinces. The calculation for each province will be on the following formula:

$$\text{Cost of Vehicle} \times \frac{\text{Total Broker Miles in Province}}{\text{Total Broker Fleet Miles}}$$

or on individual broker miles if so used.

— Tax will not be distributed to province of purchase as the broker should have paid tax in full on the purchase. Upon substantiation of tax so paid, the carrier will calculate the amount distributable to the provinces, the amount overpaid to the province of purchase and whether the broker has overpaid or underpaid tax in total.

— Any shortage must be made up by the broker. Where an overpayment has resulted, the carrier should give the broker a statement setting out all details of the overpayment. The Certificate of Broker Driver Payment previously referred to in paragraph 9(1) provides space for these details.

The broker may then submit a claim for rebate to the province of purchase which may or may **not** rebate depending on its practice. No claim will be entertained on subsequent transfers and payment in any event is at the discretion of the province of purchase.

— Case studies at the back of this booklet illustrate the calculations involved.

*Comment:* An employee of a registered carrier who purchases a vehicle from his employer, and then contracts to drive for the carrier as a broker driver, is required to pay tax on the price paid by him for the vehicle. The carrier must distribute tax as required to the participating provinces. He must also provide the broker with a Broker Driver Certificate showing the tax distribution.

*Comment:* A broker under contract to a registered carrier, who purchases a highway vehicle from another broker, by taking over the remaining payments thereon, is liable for tax on the total amount of the debt assumed. In this case the carrier must collect tax from the broker and distribute the tax to the participating provinces. He must also provide the broker with a Broker Driver Certificate showing the tax distribution.

(ii) *After use* other than with a registered carrier:

— carrier will distribute tax calculated on the formula:

$$\begin{array}{l}\text{Fair Value}\\ \text{of Vehicle}\end{array} \times \frac{\text{Total Broker Miles in Province}}{\text{Total Broker Fleet Miles}}$$

or on individual broker miles if so used.

— details outlined under (a) will apply.

— Fair value is defined in paragraph 5(12) under "Definitions" and can never be less than 20% of original purchase price.

— The province of purchase will retain 1/5 of the tax originally paid for each full year of use in that province. After 5 full years of use, it will keep the total amount originally paid. Under these circumstances where no recovery is available from the province of original purchase, the broker must pay the tax calculated on formula as required for distribution to all applicable provinces except the province of original purchase.

— Case studies at the back of this booklet illustrate the calculations involved.

(b) *After use* with another interprovincial carrier:

— No further tax need be distributed on the vehicle provided the new carrier holds authorities in provinces to which tax had previously been distributed. Prior distribution must be verified by production of a certificate as mentioned in (a) above. No adjustment need be made for differences in distribution percentages between the original and subsequent carriers.

— If the carrier hold authorities in provinces to which tax had not **not** previously been distributed on behalf of the broker, tax must be paid to such provinces (but not to those which have already had a distribution). Tax will be calculated as in (a)(ii) above.

(c) *Discontinuance of operations with interprovincial carriers:*

— Where a broker no longer operates for a registered carrier and runs exclusively within a province, no further tax is payable to the province if a distribution on his behalf had previously been made and can be documented.

— If no tax had previously been paid, or proof of payment is lacking, tax must be paid to the province in respect of the permanent use there, in accordance with the requirements of its statutes.

## 10. AUDITS

(1) **Auditing Province** — audit will be carried out by the home province on behalf of all participating provinces with which the carrier is registered.

(2) **Results of Audit** — the results of audits performed by the home province will be reported to the other participating provinces with which the carrier is registered. Assessments of tax owing will be raised by the individual provinces and mailed directly to the carrier. Similarly, credit assessments where an overpayment has been made will be handled directly by the province to which the overpayment was made.

(3) **Period of Audit** — the period of audit may vary depending on the policy of the home province.

(4) **Objections** — where a registrant has been assessed and does not agree with the basis of the assessment, he may lodge an objection with the assessing province. Procedures vary between provinces. To ensure his rights are protected, the carrier should contact the assessing province without delay upon receipt of such an assessment.

(5) **Period Prior to Joining** — the arrangement does not cover purchases made prior to

registration of the carrier. The home province will not carry out audits covering such prior periods on behalf of any province other than itself.

(6) **Interest** — where, upon audit, it is found necessary to raise an assessment with regard to tax underpaid, most provinces have the authority to add interest, and, in fact, do so. Where, however, tax has been overpaid a province and a credit assessment has been processed, few of the provinces can authorize the payment of interest to the registrant on the overpayment.

(7) **Expense of Audit** — where an audit is carried out by a designated home province on a registered carrier based in a non-participating province which necessitates travel outside the designated home province by its auditors, the auditing province will require the carrier to reimburse it for the travel expense involved.

## 11. BONDING

The home province may require a bond before registering a carrier and will so advise other provinces involved. The other provinces may, of course, also require a bond before registering the carrier. If a bond or satisfactory substitute is not obtained in any participating province and registration is refused, the carrier becomes ineligible for registration by his home province or any other.

If, after registration, a carrier fails to comply with the requirements of the arrangement, his registrations may be withdrawn. If one province cancels him for non-compliance, all other provinces with whom he is registered **must** do likewise and he will lose all privileges under the arrangement.

## 12. CARRIER WITHDRAWAL FROM ARRANGEMENT

A carrier withdrawing from the arrangement while still operating interprovincially loses all privileges extended under the arrangement.

Each province in which he operates a vehicle can be expected to ask for full tax on it. If the carrier had previously paid tax on a formula basis on the vehicle, he may be required to pay additional tax computed as the difference between tax previously paid, and tax now owing. Tax owing will be calculated on the fair value of the vehicle at the time of withdrawal.

Saskatchewan requires tax on original cost, less tax previously paid to Saskatchewan under the Arrangement.

It must be clearly understood that if a carrier does not wish to register under the arrangement, there is no legal requirement that he do so. However, he will have to pay **full tax** on a vehicle to any province in which it is used, no matter how small the use may be. This is the hardship that registration under the plan is designed to avoid.

## 13. CASUAL SALES

Where a carrier makes a casual sale of used goods (for example, used tires) to a person who cannot claim exemption he should charge tax and remit it in total to the province of use.

## 14. CHARTER BUS OPERATIONS

Charter buses will only be included in the plan if owned and operated by a bus company providing scheduled interprovincial runs and only when such buses are used in scheduled runs. Charter miles must be excluded from the formulas.

## 15. PURCHASES WITHOUT PAYMENT OF TAX

Registered transportation companies may make exempt purchases of trucks, trailers or buses used in category operations and repair parts for servicing such vehicles in repair depots, in any province in which the companies are registered.

At the discretion of individual provinces, purchases of city vehicles may be made tax paid from the supplier or alternatively, exempt, and full tax remitted to the province.

*Note:* Emergency, on-the-road repairs should be purchased tax paid, when paid for by the driver at time of purchase. However, when such repairs are not paid for by the driver but are charged directly to the company, they may be purchased exempt and a tax distribution made under the plan.

## 16. MINIMUM AMOUNTS TO BE REMITTED

If a distribution calculation results in tax payable to any one province of $5.00 or less, the return should be submitted showing ''nil'' tax payable. The amount actually owing must be carried forward until a total of at least $5.00 is accumulated at which time it will be reported on and remitted with the regular return next following.

## 17. NON-PARTICIPATING PROVINCES

Where a non-participating province subsequently joins the arrangement, distribution of tax to that province under this arrangement will apply only to purchases by registered transportation companies and their broker drivers, made after registration with such province.

## 18. PARTS AND REPAIRS

### (1) Transportation Companies

Difficulties have arisen in delineating between on-the-road repairs and depot repairs for purposes of tax accounting. As of July 1, 1977 the following revised approach is effective:

— *Repairs to Highway Vehicles*

— Tax must be charged by the seller in the normal way on any repair paid for by the driver at time of purchase. No distribution under the plan is required.

— Where repairs are charged directly to the company, no matter how ordered, the company will buy exempt and make a distribution of tax under the plan.

*Comment:* The practice of charging "on-the-road" repairs in the U.S.A. does not justify the U.S. miles for inclusion in "total category miles" for the vehicles in the fleet. The repairs however should be considered as distributable by virtue of having been charged to and authorized by the carrier's management.

*Comment:* Repairs at company depots to company-owned vehicles are distributable. Taxes are to be accounted for on the mileage distribution formula for each category of highway vehicle.

— *Repairs to City Vehicles*
Tax will be paid in full to the province of use on the purchase of parts for city vehicles, no matter where purchased. In Newfoundland, Prince Edward Island and Manitoba repair labour is also taxable.

— *General*
Under no circumstances can a driver issue an exemption certificate or quote a number to buy exempt.

(2) **Broker Drivers**

Broker drivers will pay tax on all parts and repairs at the time of purchase and tax will be remitted to the province of purchase in the normal manner by the seller. Where repairs are carried out for a broker driver at a transportation company depot, tax must be collected from the broker driver and remitted in the normal manner to the province in which the depot is situated. No distribution is required of tax paid on repair parts by brokers.

(3) **Calculations of Tax on Repairs**

The value for tax of a repair ordinarily is the price of the parts and materials only, where these are segregated on the billing. However, the Manitoba statute deems the total price, including labour, paid to an outside repairer to be taxable. However, where a carrier repairs his own vehicles in his repair depot, tax applies only to materials and parts used in the repair.

Prince Edward Island also treats repair labour as taxable, without any distinction between being done by insiders or outsiders. Reports to these provinces should be calculated accordingly.

Even though Saskatchewan does not tax used goods, rebuilt or remanufactured parts are taxable on the price paid to an outside supplier, or the manufactured cost where this is done by a carrier's own employees.

Saskatchewan taxes rebuilt and remanufactured parts on the total price before the allowance for the exchange or core charge when obtained from an outside supplier. In instances where these items are manufactured by the carrier's own employees, the tax is to be calculated on the manufactured cost.

Newfoundland regards any repair work done on or in connection with any tangible personal property as being subject to tax.

*Comment:* Maintenance chemicals used in cleaning highway vehicles must not be considered as distributable repairs. Tax should therefore be paid to the province where the operation is performed at the time the chemicals are purchased.

## 19. PROGRAM REQUIREMENTS

### (1) General

The carrier must maintain adequate documentation to substantiate:

..mileage distribution

..vehicle purchases, both carrier and broker including interchanges.

..purchase and allocation of parts

..vehicle rentals, both carrier and broker

..changes in use of vehicles affecting tax liability

..tax returns

..any other transaction involving tax paid, tax payable or tax that may be payable

..division of tax payable as a registered carrier under this arrangement and tax payable under a regular vendor's permit, if such is held.

Returns made to individual provinces will be made on forms provided by and in accordance with the instructions of the individual provinces.

### (2) Records Required

(a) *Trip Records*

Trip records showing details of vehicles, route and mileage, date, driver, etc.

(b) *Monthly Mileage Report*

Certain provinces require a monthly summary of miles to date, by vehicle. Where no province in which a carrier is registered requires this, an annual accumulation will suffice.

(c) *Annual Mileage Distribution Record*

The aggregate of miles in each province travelled by all vehicles in each category will constitute the Annual Mileage Distribution Report. From these totals the actual percent of use in each province by each category can be calculated.

This percentage per jurisdiction will be used for distribution calculations during the carrier's following mileage distribution year.

## 20. RENTAL UNITS

### (1) General

A rental charge is considered as a purchase for the month and tax will be accounted for in the same manner as for any other purchase.

### (2) Transportation Companies

Transportation companies will not pay tax to the lessor but will calculate and distribute tax thereon.

*Comment:* The rental of a highway bus with a driver whether or not an employee of the lessee is on board to act as fare conductor and guide, is the provision

of a service not subject to tax. The miles operated by these buses must be included in the mileage figures of the lessor and tax remitted accordingly to their distribution. This applies only when the bus is used in scheduled interprovincial service.

(3) **Broker Drivers**

Broker drivers, not being registered as transportation companies, must pay tax as required by the province in which the rental arrangement is made.

Where a broker driver is under contract to a registered transportation company the company will distribute and adjust tax paid or collect and distribute tax.

*Comment:* This procedure applies even when the broker leases the vehicles from the carrier, for whom he drives under contract.

(4) **Interchanges**

Companies often allow other carriers to use their equipment and charge them for such use. This is a form of rental and the lessee must distribute tax as on any other rental. Offsets cannot be used to reduce the amount of tax owing.

The Ontario regulation does not treat these charges as taxable rentals. Accordingly no tax is due this province with respect to these charges.

## 21. INTERCOMPANY TRANSACTIONS

The application of tax with respect to intercompany transactions may vary among provinces, to the extent of exemption for transfers of vehicles subject to certain conditions. For clarification on such transactions, full details should be submitted by the carrier to its home province.

## 22. PRIVATE CARRIERS

Private carriers transporting their own goods do not qualify for registration under this arrangement. There are however informal reciprocal agreements between some neighbouring provinces to relieve the application of tax in both provinces. Queries regarding these agreements should be directed to the respective provinces listed on Pages 1 and 2 of this booklet. Note however that there are no reciprocal agreements in this area between any of the Canadian provinces and any of the United States.